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SIPDIS

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TAGS: [EFIN](#) [ECON](#) [IT](#) [EUN](#)

SUBJECT: ECOFIN TOUR D'HORIZON: FRANCE'S BUDGET, ACCOUNTING STANDARDS, BASEL II, BALKANS RECONSTRUCTION

REF: A. FRANKFURT 7111

[B](#). ROME 4730

[C](#). MILAN 00562

Classified By: Minister Counselor for Economic Affairs Scott Kilner for reasons 1.5 (b)

[1](#). (SBU) Summary: France's continued flouting of Stability and Growth Pact (SGP) rules and possible punitive measures will dominate discussions at the November 4 ECOFIN Council meeting in Brussels, Italian Finance Ministry officials told econoff in meetings this week. However, there is no political agreement among the Commission and Members States about what to do with France. Two issues of key importance to the U.S. - the Takeover Directive and BASEL II - will not be on the agenda. Commissioner Bolkenstein is expected to give a positive debrief of recent talks between the Commission and U.S. officials on accounting rules. End summary.

WHAT TO DO WITH FRANCE?  
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[2](#). (SBU) Carlo Baldocci, diplomatic advisor to Finance Minister Tremonti, and Carlo Monticelli, Senior Director for G7 and EU Affairs at the Finance Ministry, told econoff that Italian officials are looking with trepidation at the November 4 ECOFIN when the standoff with France over its continued disregard for SGP deficit rules is expected to come to a head.

[3](#). (C) The French are putting a full court press on large countries' leaders, specifically Berlusconi, Schroeder, Aznar and, to a lesser extent, Blair, to back them up in the expected confrontation with the Commission. Despite Chirac's pressure, the Italians want to try to remain neutral in this fight and stand ready to be a broker if needed. The Finance Ministry's Director General Bini Smaghi and his German counterpart Caio Wesser have met with French officials and suggested technical changes to the French budget that would conceivably bring France's budget closer to SGP deficit targets. The ability to do so is there, but France's political will isn't, Baldocci said.

[4](#). (C) During the October 30th EU meeting with Balkan leaders on reconstruction efforts, Commissioner Solbes, the German Delegation, Luxembourg's Prime Minister, the Italian Presidency Delegation and French officials broke off from the day's proceedings to discuss France's 2004 budget. Everyone was surprised that the French brought nothing new to the table. Stymied by the French position, no political consensus was reached among this group regarding what punitive actions would be imposed on France. But the frost in the air between the Commission and the French was palpable, Baldocci commented.

ACCOUNTING STANDARDS  
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[5](#). (SBU) Aside from discussion about France, Commissioner Bolkenstein will report during the informal lunch proceedings on recent Commission-U.S. discussions on accounting standards and Sarbanes-Oxley. Baldocci and Monticelli both commented that they understood that Bolkenstein will give a positive reading. They also said that FinMins are eager to reach a political agreement so that they can delegate to the Commission the responsibility to work out the technical aspects of an accord. This political agreement could be reached at the November 4th ECOFIN.

BASEL II  
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[6](#). (C) BASEL II is not on the agenda. If Finance Minister Tremonti has his way, Baldocci remarked, it will be not considered again while Italy holds the EU Presidency. The Italian government itself is bitterly divided about the application of BASEL II, he noted. Note/Comment: As reported in ref c, Tremonti has repeatedly said that BASEL II may not be in the best national interests of Italy and has urged further revisions to the accord. In particular, Tremonti has called for corrections in the new risk rating procedures imposed upon banks. In contrast, Central Bank Governor Antonio Fazio has come out in favor of BASEL II even as it

stands now. On a broader level, Tremonti and Fazio have been sparring with each other over such issues as the draft 2004 Italian budget, BASEL II, the Central Bank's supervision of bond offerings, and more. Relations between the two are at their worst point and officials from both the Ministry and

the Central Bank have raised concerns that this antagonism could interfere with the Italian Government's own ability to reach consensus on certain issues, including BASEL II. End note/comment.

#### TAKEOVER DIRECTIVE -----

17. (SBU) The Takeover Directive is not scheduled to be discussed, according to the two Finance Ministry officials. Although Finance Ministry officials have the lead for the Italians, the Takeover Directive falls under the competency of the Competitiveness Council, which will meet on November 10. The Ministry of Productive Activities (Industry) and the Ministry for EU Integration are part of the GOI's internal consultative process. Nonetheless, econoff explained U.S. concerns about reciprocity provisions under the Takeover Directive to both Baldocci and Monticelli. Both agreed to give us a head's up should they hear that the reciprocity issue has re-emerged.

#### CLEARING UP MISCONCEPTIONS -----

18. (SBU) Italian officials want to clear the record straight on what happened regarding the Investment Services Directive, remarked Monticelli. Despite press reports and claims by some Member States, Italy did not force a vote on the ISD over the U.K.'s objections (ref a, b). The Presidency presented its compromise proposal and, afterwards, gave the U.K. delegation the opportunity to present an alternative proposal. The British did, but their proposal was not supported by the majority of the Finance Ministers, and thus, was not considered.

19. (SBU) Another misconception is what occurred at the October 27th Intergovernmental Conference (IGC), Monticelli said. The Eurogroup (EU Finance Ministers and Central Bank Governors) do not have an official role in the IGC. Their proposal to retain control over certain budgetary powers rather than relinquishing them to the European Parliament was informal and should be considered solely as a point of reference. The Italian Presidency is encouraging the IGC to consider all points of reference.

#### BALKAN RECONSTRUCTION -----

10. (U) On October 30, the Italian EU Presidency and Commission held a meeting in Venice on the Balkans: "From Reconstruction to Economic Integration." At this meeting, Finance Minister Tremonti presented five initiatives, which would bring together public and private sector financing and participation, for the energy and transport sectors in the Balkan countries. These initiatives will be supported by the European Bank for Reconstruction and Development, European Investment Bank and the World Bank. According to Baldocci, the Commission and the Italian Government will contribute 20 million euros and 15 million euros respectively to this initiative. The Italian contribution will be in new money, disbursed in 2004, with 10 million euros coming from the Finance Ministry and 5 million from the MFA.

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